Audited Financial Statement

June 30 2013

HACC

CENTRAL PENNSYLVANIA'S COMMUNITY COLLEGE

Founded in 1964

CONTENTS

1 Report -	Federal Audit Clearing House Bureau of Census 1201 East 10th Street Jeffersonville, Indiana 47132 **(submitted electronically)**
1 Report -	Bureau of Audits Special Audit Services Division Forum Place – 8th Floor 555 Walnut Street Harrisburg, Pennsylvania 17101 **(submitted electronically)**
1 Report -	State Public School Building Authority P. O. Box 990 Camp Hill, PA 17001

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Harrisburg Area Community College (the College), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Harrisburg Area Community College Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Trustees
Harrisburg Area Community College

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Harrisburg Area Community College as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS-OF-MATTER

As described in Note 1, the College has implemented a reporting model to account for deferred inflows, deferred outflows, net position, and items previously recorded as assets and liabilities required by the provisions of the Government Accounting Standards Board ("GASB") Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of July 1, 2012. Our opinions were not modified with respect to this matter.

OTHER MATTERS

The financial statements of Harrisburg Area Community College as of June 30, 2012, were audited by other auditors whose report dated October 23, 2012, expressed an unmodified opinion on those statements. As discussed in Note 16, the College has restated its June 30, 2012 statements during the current year to properly account for direct loans and reclassify construction in progress, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the June 30, 2012 financial statements before the restatement.

As part of our audit of the June 30, 2013 financial statements, we also audited the adjustments in Note 16 that were applied to restate the June 30, 2012 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2012 financial statements of Harrisburg Area Community College other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2012 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 14 and the other post-employment benefit schedule of funding progress on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

Smith Elliott Kearns & Company, LLC
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Board of Trustees
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standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrisburg Area Community College's basic financial statements. The schedule of expenses by functional classification is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The schedule of expenses by functional classification and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenses by functional classification and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2013, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 16, 2013

INTRODUCTION

Management's Discussion and Analysis (MD&A) of Harrisburg Area Community College's (HACC) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2013, with selected comparative information for the years ended June 30, 2012 and 2011. The purpose of the MD&A is to assist readers with understanding the accompanying financial statements by providing objective and understandable analysis of HACC's financial activities based on current known facts, decisions, and conditions. HACC management has prepared this analysis and is responsible for the completeness and fairness of the information contained within. This MD&A should be read in conjunction with the financial statements and notes.

The College has prepared its financial statements in accordance with Government Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public colleges and universities and require that the financial statements be presented to focus on the College as a whole. Three financial statements are presented: the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows. This MD&A includes comments on each statement and focuses on the activities of the College (Primary Institution) only.

Additionally, the College has implemented Government Accounting Standards Board Statement No. 61, "The Financial Reporting Entity". Pursuant to the criteria set forth in GASB 61, it was determined that the HACC Foundation is a component unit, whose sole purpose is to serve the institution by providing resources for scholarships and other college projects. The Foundation's financial statements for June 30, 2013 and 2012 are displayed in the financial statements section of the report and are not included in the MD&A discussions. Separately issued financial statements are available for the HACC Foundation by contacting Mr. John M. Eberly, Vice President of Finance and College Resources, Harrisburg Area Community College, One HACC Drive, Harrisburg, PA 17110-2999.

FINANCIAL HIGHLIGHTS

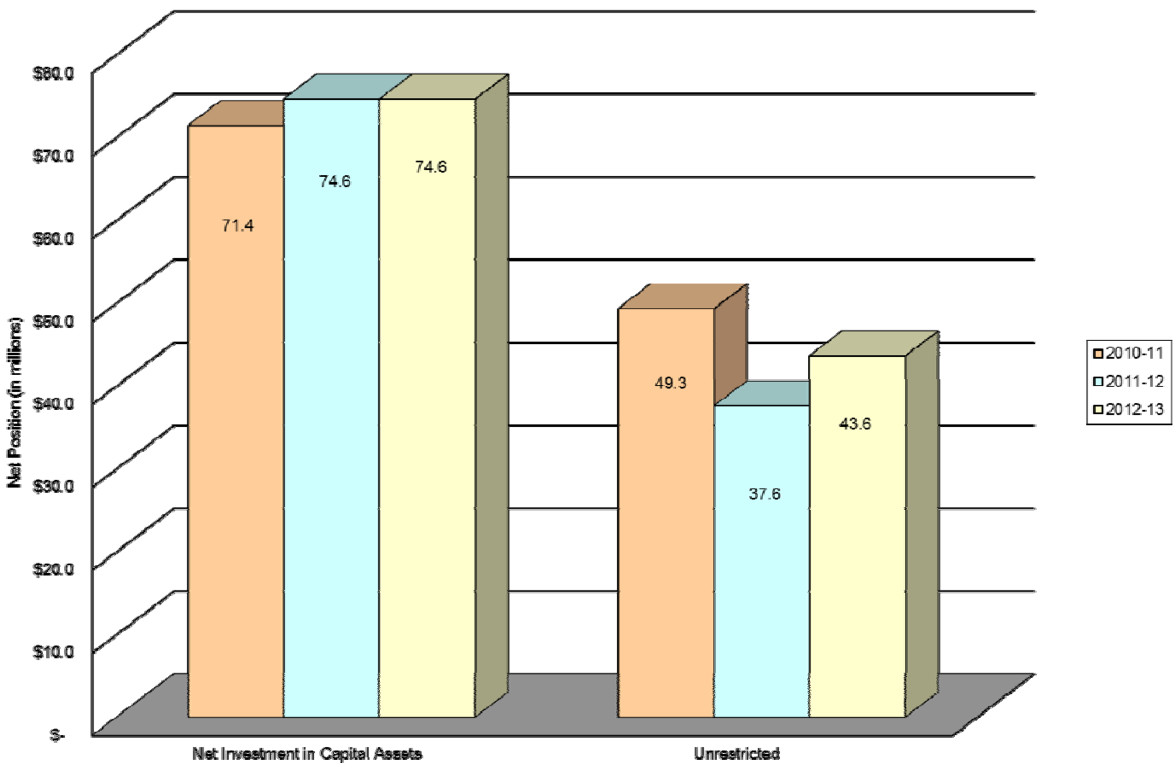
HACC's financial position continues to remain strong as of June 30, 2013. At June 30, 2013, HACC's assets of $286.7 million exceeded its liabilities of $168.5 million by $118.2 million, an increase over the prior year of $6.0 million. At June 30, 2012, assets of $272.0 million exceeded liabilities of $159.8 million by $112.2 million, a decrease compared to the prior year of $8.5 million.

The "Net Position", which represents the difference between total assets plus deferred outflows of resources and total liabilities, is divided into two major categories. The first category, net invested in capital assets, shows the College's equity in property, plant, and equipment that it owns. The second category, unrestricted net position, is available to use for any lawful purpose of the College. The following table and graph summarizes the College's statement of net position by category as of June 30, 2013, 2012, and 2011.

Net Position
As of June 30
(In millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Net Investment in Capital Assets	$74.6	$74.6	$0.0	$71.4	$2.8
Unrestricted	43.6	37.6	6.0	49.3	(11.3)
Total Net Position	$118.2	$112.2	$6.0	$120.7	($8.5)

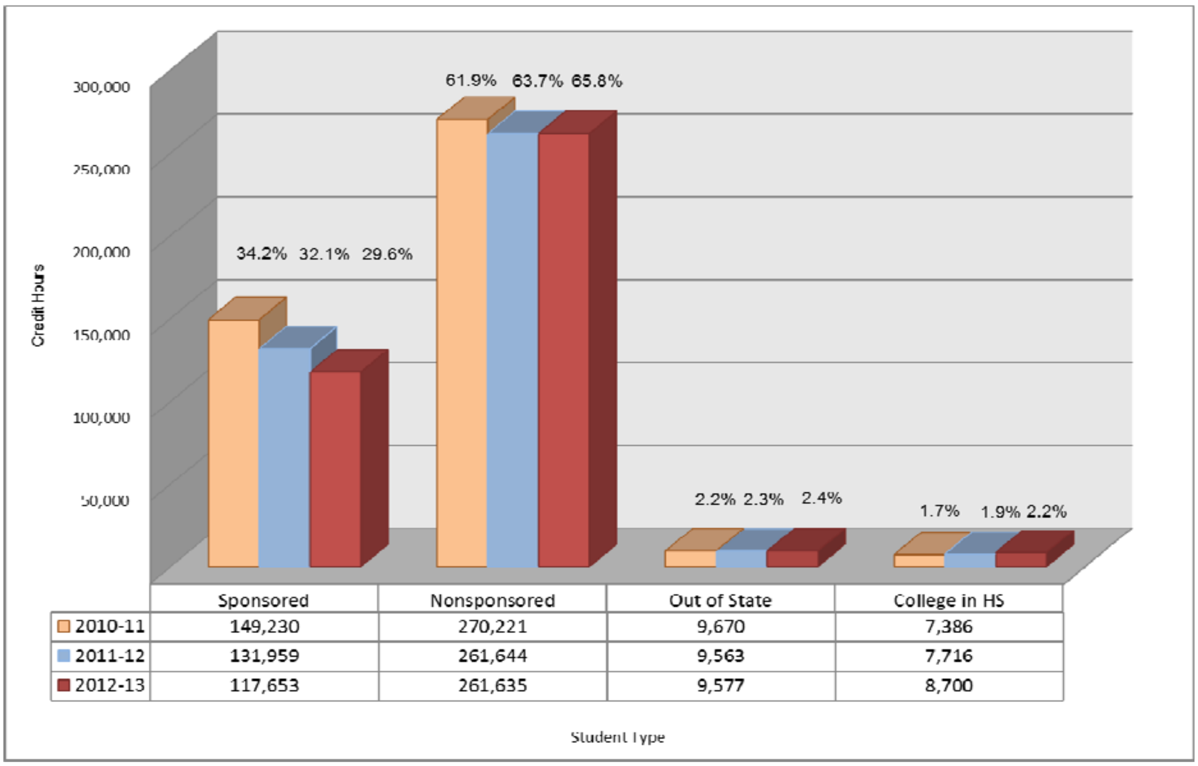
Comparison of Net Position Fiscal Years 2011, 2012, 2013



CREDIT HOUR PRODUCTION

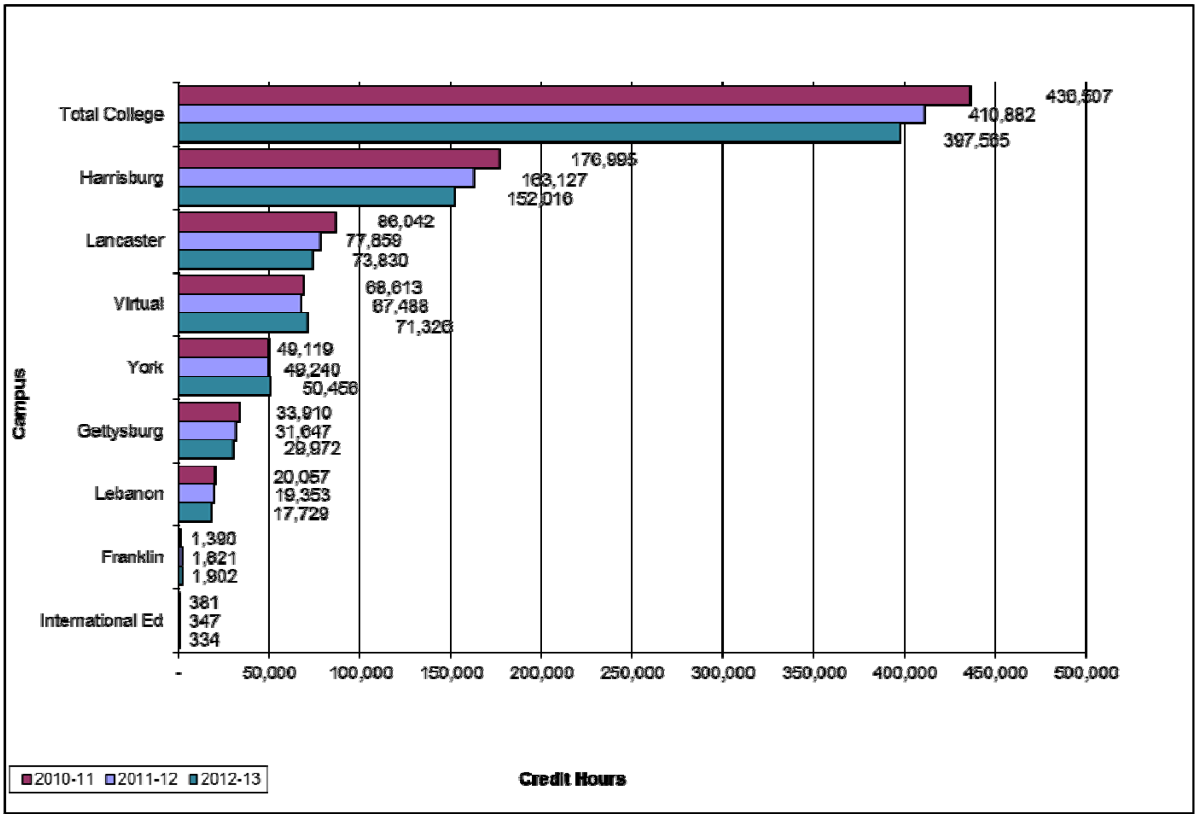
The College experienced a decrease in enrollments of 3.2% (13,317 credit hours) in 2013 and 5.9% (25,625 credit hours) in 2012 due to the continuing effects of the economy. Total credit hours have gone from 436,507 in 2011 to 410,882 for 2012 and to 397,565 for 2013. In 2013, the College realized the percentage of non-sponsored student credit hours increase to 65.8% of total enrollments, up from 63.7% in 2012 and 61.9% in 2011 as compared to a decrease in the percentage of sponsoring student credit hours to 29.6% of total enrollments in 2013, down from 32.1% in 2012, and 34.2% in 2011. Each non-sponsored student paid tuition of $195.00 per credit hour in 2013, while a sponsored student paid $139.50 per credit hour and received local sponsoring school district support.

Credit Hour Production by Student Type



	Sponsored	Nonsponsored	Out of State	College in HS
2010-11	149,230	270,221	9,670	7,386
2011-12	131,959	261,644	9,563	7,716
2012-13	117,653	261,635	9,577	8,700

Credit Hour Production by Campus 2011, 2012, 2013



STATEMENTS OF NET POSITION

The statement of net position presents the assets, deferred outflows/inflows of resources, liabilities, and net position of the College as of the end of the June 30, 2013 fiscal year. This statement provides a snapshot of the financial condition of the College with unrestricted net position representing funds available to continue the operations of the institution. It presents the end-of-the-year data for current and noncurrent assets, deferred outflows/inflows of resources, current and noncurrent liabilities, and net position (assets plus deferred outflows minus liabilities and deferred inflows). Over periods of time, increases and decreases in net position may serve as a useful gauge of the College's financial position. As the following chart illustrates, the College is in a strong financial position with net position increasing over the past year due to savings in salary and benefits due to reduction in workforce, vacant positions, and alignment of operating costs with operating revenues.

Statements of Net Position
(In millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Assets					
Current Assets	$50.7	$66.1	($15.4)	$92.5	($26.4)
Noncurrent Assets	235.9	205.6	30.3	138.1	67.5
Total Assets	286.6	271.7	14.9	230.6	41.1
Deferred Outflows of Resources	0.1	0.3	(0.2)	-	0.3
Total Assets and Deferred Outflows of Resources	286.7	272.0	14.7	230.6	41.4
Liabilities					
Current Liabilities	28.8	34.2	(5.4)	25.7	8.5
Noncurrent Liabilities	139.7	125.6	14.1	84.1	41.5
Total Liabilities	168.5	159.8	8.7	109.8	50.0
Net Position					
Net Investment in Capital Assets	74.6	74.6	0.0	71.4	3.2
Unrestricted	43.6	37.6	6.0	49.3	(11.7)
Total Net Position	$118.2	$112.2	$6.0	$120.7	($8.5)

In 2013, current assets decreased by $15.4 million over 2012. During the year, cash and cash equivalents decreased by $5.6 million and short-term investments decreased by $11.6 million. The decrease is a result of $17.2 million invested in long-term instruments to obtain better interest rates. In addition, restricted cash and cash equivalents increased by a net $4.6 million due to the issuance of the 2013 bond for the renovation of the C. Ted Lick Wildwood Conference Center to house central administration. In 2013, the College incurred a decrease in accounts receivable by $2.2 million due to increased collection efforts and minor changes in financial aid disbursement practices, a $332,000 decrease in other assets due to reclassification of bond costs, a decrease in prepaid items, and a minor increase in bookstore inventory.

The noncurrent assets increased by $30.3 million in 2013 from the previous year. The increase is partially due to the purchase of the York Campus. In addition, $19.2 million of cash and cash equivalent and short-term investments were invested in long term instruments to obtain better interest rates. Deferred outflows of resources decreased by $176,000 due to reduction in deferred charges on bond refunding.

Current liabilities for 2013 decreased by $5.4 million due to decreases of $7.5 million in accrued expenses and an increase of $634,000 in unearned revenue representing an increase in paid tuition and fees toward Summer II and Fall 2013 semesters. Also, the current portion of long-term liabilities increased by $1.3 million with added debt for the 2012-2013 bond issues. Noncurrent liabilities for 2013 reflect an increase of $14.1 million in bonds payable as debt added during 2013 to purchase the York Campus.

Net position increased to $118.2 million as of June 30, 2013. The largest portion of these net assets, $74.6 million, reflects the College's net investment in capital assets. The College uses these capital assets to provide services to students, faculty, and staff and is not available for future spending. Therefore, resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net position balance of $43.6 million is available to use for any lawful purpose of the College.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statements of revenues, expenses, and changes in net position show the College's financial results for the fiscal year. The statement includes the College's revenues and expenses, both operating and non-operating.

Operating revenues are those received by the College for directly providing goods and services. Non-operating revenues are those that exclude a direct exchange of goods and services. State and local (school district) appropriations are classified as non-operating revenues since these governmental agencies do not directly receive goods or services for the revenue.

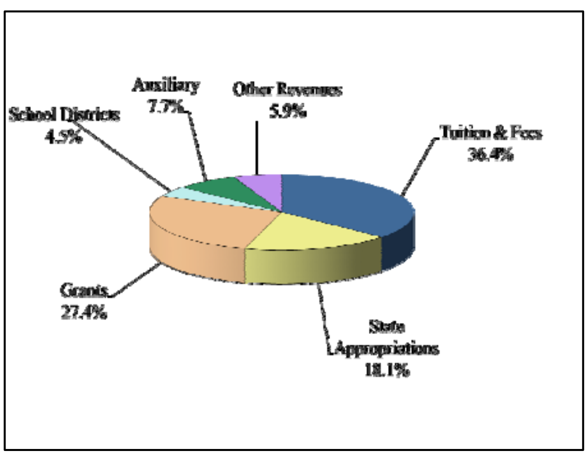
The following is a summarized version of the College's revenues, expenses, and changes in net position for years ending June 30, 2013, 2012, and 2011, as well as graphical representations of revenues and expenses by category.

Revenues, Expenses and Changes in Net Position
(In millions)

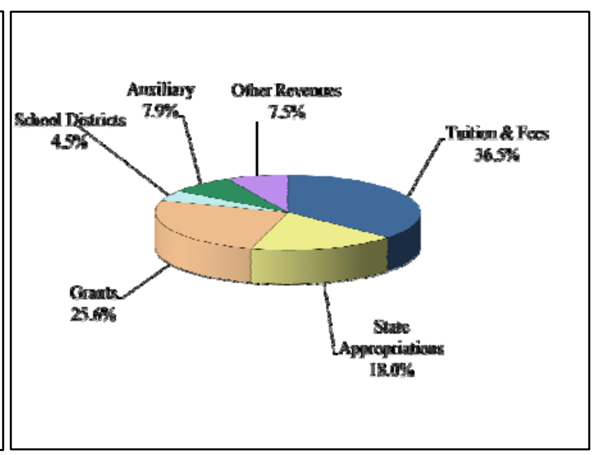
	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012 - 2011
Operating Revenues	$138.8	$138.2	$0.6	$136.3	$1.9
Operating Expenses	178.8	195.1	(16.3)	182.9	12.2
Operating Income (Loss)	(40.0)	(56.9)	16.9	(46.6)	(10.3)
Nonoperating Revenues (Net)	36.3	39.4	(3.1)	43.9	(4.5)
Net Income (Loss) Before Capital Contributions	(3.7)	(17.5)	13.8	(2.7)	(14.8)
Capital Contributions	9.7	9.0	0.7	8.7	0.3
Increase (Decrease) in Net Position	$6.0	($8.5)	$14.5	$6.0	($14.5)

Total Operating and Non-Operating Revenues

2013



2012



Operating revenues of $138.8 million in 2013 were $624,000 greater than 2012. Total operating revenues in 2012 were $138.2 million, which was an increase of $1.9 million over 2011. In 2013, tuition and fees increased to $782,000 driven by increased tuition per credit hour (sponsored students $139.50 in 2013 versus $136.50 in 2012, non-sponsored students $195.00 in 2013 versus $189.00 in

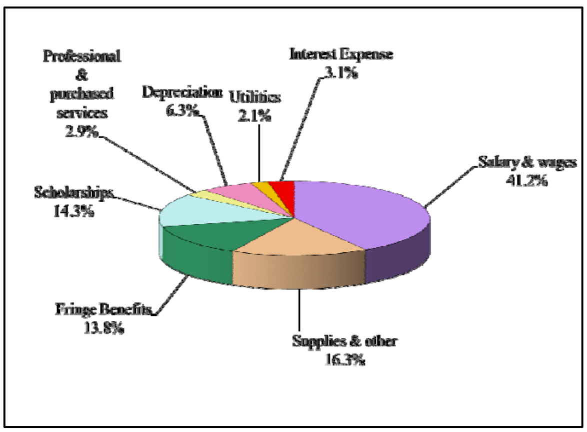
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

Total Operating and Non-Operating Revenues (Continued)

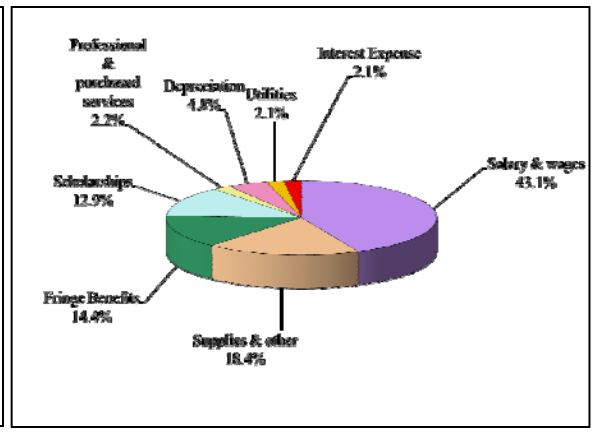
2012, and out-of-state students $292.50 in 2013 versus $283.50 in 2012) but scholarship allowances and discounts increased by $2.0 million resulting in a net tuition and fee decrease of $1.2 million. Also, the College experienced an overall increase of $2.7 million in grants and contracts mainly from additional federal grants and contracts. This was due to an increased number of participants receiving assistance. Other operating revenues decreased by $916,000 which includes income from institutional fees.

Total Operating Expenses by Natural Source

2013

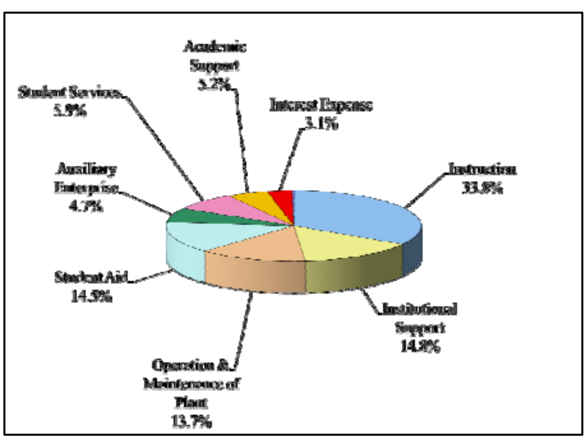


2012

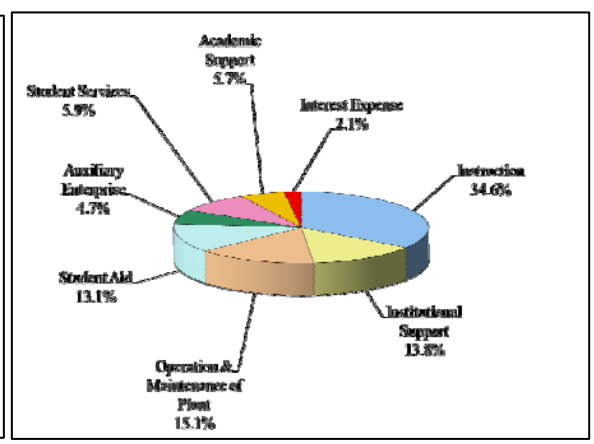


Total Operating Expenses by Function

2013



2012



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

Total Operating Expenses by Function (Continued)

Operating expenses decreased by $16.3 million in 2013. With the exception of scholarships and fellowships and depreciation and amortization, the College experienced a decrease in all expense categories in 2013 compared to 2012. The $657,000 increase in scholarships/fellowships reflects additional PELL awards and depreciation/amortization increased $2.1 million due to additional capitalized assets and change in expense recognition of bond insurance. Salary and fringe benefits decreased $13.4 million due to a reduction in workforce, college realignment, and vacant positions. Other changes in expenses include utilities decreasing by $232,000 due to energy efficient improvements, supplies and other expenses decreased by $4.6 million which is mainly due to savings of lease expenses when the College purchased the Lancaster Campus and overall decrease in operational supplies and instructional equipment not capitalized, and professional and purchased services were down $842,000 in all subcategories.

Non-operating revenues (expenses) decreased by $3.0 million which includes a decrease of $1.0 million in state appropriations and gifts, an increase in $1.4 million in interest expense, and a net decrease of $653,000 in other non-operating revenue. The increase of $1.4 million in interest expense is capital asset related debt, which includes interest payments on 2011, 2012, and 2013 bonds issued to purchase the Lancaster and York Campus and renovate the C. Ted Lick Wildwood Conference Center to facilitate Central Administration.

The total capital contributions for fiscal year 2013 amounted to $9.7 million. This was an increase of $759,000 compared to 2012 which includes an increase of $682,000 in state and local appropriations and an increase of $77,000 in grants and gifts.

The Statement of Revenues, Expenses, and Changes in Net Position reflects an overall increase of $6.0 million due to decreases in operating expenses.

STATEMENTS OF CASH FLOWS

The final statement presented by the College is the statement of cash flows. The statement of cash flows presents information about the cash activity of the College identifying the major sources and uses of cash during the year. The following summary shows the College's liquidity as of June 30, 2013 had decreased $1.0 million compared to the prior year. The following is a summary of the statement of cash flows for the years ending June 30, 2013, 2012, and 2011.

Cash Flows
(In millions)

	2013	2012	Increase (Decrease) 2013-2012	2011	Increase (Decrease) 2012-2011
Cash Provided (Used) By:					
Operating Activities	($32.2)	($44.0)	$11.8	($35.1)	($8.9)
Noncapital Financing Activities	41.3	42.5	(1.2)	45.6	(3.1)
Capital Financing Activities	(2.6)	(16.3)	13.7	(17.3)	1.0
Investing Activities	(7.5)	(13.5)	6.0	6.3	(19.8)
Net Increase (decrease) in Cash and Cash Equivalents	(1.0)	(31.3)	30.3	(0.5)	(30.8)
Cash and Cash Equivalents - Beginning of Year	36.2	67.5	(31.3)	68.0	(0.5)
Cash and Cash Equivalents - End of Year	$35.2	$36.2	($1.0)	$67.5	($31.3)

CAPITAL ASSET AND DEBT ADMINISTRATION

During the year ended June 30, 2013, the College had total capital additions of approximately $33.6 million which included the purchase of the York Campus and numerous renovation projects at other campuses. Renovation projects included completion and placement in service of the newly constructed Law Enforcement Center (LEC) on the Harrisburg Campus and purchase of a new fire truck for Non-Credit, replacement of chiller on the Lancaster Campus, flood renovations at the Gettysburg Campus, and general renovations at the York Campus.

The College has several outstanding debt instruments which were issued to finance various construction projects and other improvements. These debts, including payment schedules are fully disclosed in greater detail within Notes 7 and 8 of the financial statements.

CAPITAL PLAN

For 2014, the College has a variety of capital projects that have been planned or are currently being planned based upon funding availability. The plan includes multiple projects on the Harrisburg Campus including renovating the C. Ted Lick Wildwood Conference Center to facilitate Central Administration (currently funded), seal coat roads and parking lots, and library window replacement on campus. There are plans to retro-commission buildings, resurface parking lots, and replacement of a multipurpose truck at the Lancaster Campus. The College plans to replace/install parking lot light fixtures and remodel several classrooms at the Gettysburg Campus.

Finally, the College is planning several renovation projects at the York Campus including door and window replacements, general purpose interior remodeling, interior and exterior thermal and moisture protection, and sidewalk replacements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's financial position is closely tied to the economy and State's budget. Changes in the economy, unemployment rates in Central Pennsylvania, high school graduating yield rates, the College's challenges and opportunities to expand into new markets, and retention efforts have all affected student enrollments.

State and local funding through annual appropriations and other funding continues to be unpredictable, especially with the uncertainty of the economy. During 2013, the College amended the sponsorship agreement with the local sponsors (school districts) reducing their operating support on a graduating scale, from $8.0 million in fiscal year 2013-14 to $4.0 million in fiscal year 2016-17. At the same time, the local sponsors agreed to increase the capital contributions from $1.0 million in fiscal year 2012-13 to $1.5 million in fiscal year 2017. However, the College continues to focus on student retention and foster growth through the pursuit of alternative sources of revenue, including funding through grants, major gift campaigns, and partnerships with local businesses, hospitals, and state agencies to meet our ongoing mission to provide low cost education to all who seek it. The College continues to be innovative by offering new programs to our students.

The College has undergone significant cultural and economic changes to remain fiscally sustainable by realigning the operating costs with the estimated revenues through organizational realignment and process improvements. The realignment included elimination of numerous vacant and open positions and a modest increase in student fees.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE (CONTINUED)

Overall, the College's current financial position remains strong as is evident by the 2013 financial statements. The organizational changes in fiscal year 2012 had a positive impact on the College's financial position. The current College structure is aligned to streamline operations, create efficiencies, and eliminate redundancies to advance fiscal stability and provide a high quality, low cost education where students come first.

HARRISBURG AREA COMMUNITY COLLEGE
Statements of Net Position
June 30, 2013 and 2012

	2013	2012 (as restated)	2013	2012
	Primary Institution		Component Unit Foundation	
ASSETS				
Current Assets				
Cash and cash equivalents	$ 26,398,377	$ 31,987,515	$ 735,190	$ 1,260,072
Restricted cash and cash equivalents	8,811,535	4,202,914	-	-
Short-term investments	2,645,019	14,272,482	-	-
Accounts receivable, net	8,796,598	11,020,074	2,511,727	3,024,036
Loans receivable - current portion	5,122	22,431	-	-
Other assets	1,462,690	1,845,339	3,017	2,118
Inventories	2,485,362	2,458,959	-	-
Due from HACC Foundation	113,839	320,487	-	-
Total Current Assets	50,718,542	66,130,201	3,249,934	4,286,226
Noncurrent Assets				
Long-term investments	27,394,913	8,189,238	29,654,700	27,837,424
Loans receivable - long term portion	21,990	10,152	-	-
Capital assets, net of accumulated depreciation	208,526,144	197,381,794	-	-
Total Noncurrent Assets	235,943,047	205,581,184	29,654,700	27,837,424
Total Assets	286,661,589	271,711,385	32,904,634	32,123,650
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on bond refunding	118,416	294,592	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 286,780,005	$ 272,005,977	$ 32,904,634	$ 32,123,650
LIABILITIES				
Current Liabilities				
Due to HACC	$ -	$ -	$ 113,839	$ 320,487
Accounts payable and accrued expenses	12,313,198	19,862,356	113,665	-
Deposits held in custody for others	1,484,468	1,246,895	-	-
Unearned revenue	5,068,460	4,434,297	69,700	34,000
Current portion of long term liabilities	9,968,314	8,653,982	-	-
Total Current Liabilities	28,834,440	34,197,530	297,204	354,487
Noncurrent Liabilities				
Long-term liabilities	138,728,755	124,871,406	-	-
OPEB obligations	980,220	763,638	-	-
Total Noncurrent Liabilities	139,708,975	125,635,044	-	-
Total Liabilities	168,543,415	159,832,574	297,204	354,487
NET POSITION				
Net Investment in capital assets	74,615,956	74,631,915	-	-
Restricted - temporarily	-	-	13,840,387	14,222,661
Restricted - permanently	-	-	16,639,945	15,836,673
Unrestricted	43,620,634	37,541,488	2,127,098	1,709,829
Total Net Position	118,236,590	112,173,403	32,607,430	31,769,163
TOTAL LIABILITIES AND NET POSITION	$ 286,780,005	$ 272,005,977	$ 32,904,634	$ 32,123,650

HARRISBURG AREA COMMUNITY COLLEGE
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012 (as restated)	2013	2012
	Primary Institution		Component Unit Foundation	
REVENUES				
Operating Revenues				
Student tuition and fees	$ 83,452,924	$ 82,671,106	$ -	$ -
Scholarship allowance and discounts	(18,212,000)	(16,260,834)	-	-
Federal grants	39,165,095	37,224,289	-	-
State and local grants	9,777,138	9,093,679	-	-
Nongovernmental grants	313,159	228,681	-	-
Sales and services of auxiliary enterprises	13,756,191	14,450,698	-	-
Other operating revenues	10,568,325	10,789,422	-	-
Contributions	-	-	3,138,850	2,904,193
Investment income, net of investment expenses of $ 118,054 - 2013 and $108,325 - 2012	-	-	714,516	638,321
Realized and unrealized gains (losses) on investments	-	-	2,186,013	(600,507)
Support fee	-	-	-	-
Total Operating Revenues	138,820,832	138,197,041	6,039,379	2,942,007
EXPENSES				
Operating Expenses				
Salaries and wages	75,682,933	85,880,566	772,127	291,311
Fringe benefits and payroll taxes	25,540,501	28,709,635	344,541	111,891
Supplies and other expense	30,115,092	34,742,366	2,898,537	1,099,974
Professional and purchased services	5,433,261	6,274,923	26,669	220,414
Utilities	3,933,362	4,165,248	-	-
Depreciation and amortization	11,709,138	9,597,052	-	-
Scholarships	26,395,431	25,738,609	940,092	823,054
Contributions and grants	-	-	219,146	489,559
Total Operating Expenses	178,809,718	195,108,399	5,201,112	3,036,203
Operating Income (Loss)	(39,988,886)	(56,911,358)	838,267	(94,196)
NON-OPERATING REVENUES (EXPENSES)				
State appropriations	32,390,178	32,783,585	-	-
Local appropriations	8,002,674	8,002,674	-	-
Gifts	1,556,434	2,136,037	-	-
Gain (loss) on sale of assets	2,336	(14,039)	-	-
Investment income, net of investment expenses of $15,640 - 2013 and $12,360 - 2012	82,564	751,386	-	-
Interest expense	(5,692,947)	(4,279,203)	-	-
Total Non-Operating Revenues, net	36,341,239	39,380,440	-	-
Net Income (Loss) Before Capital Contributions	(3,647,647)	(17,530,918)	838,267	(94,196)
CAPITAL CONTRIBUTIONS				
Capital appropriations - local sources	1,000,000	800,000	-	-
Capital appropriations - state sources	7,273,853	6,791,882	-	-
Capital grants and gifts	1,436,981	1,360,115	-	-
Total Capital Contributions	9,710,834	8,951,997	-	-
Increase (decrease) in Net Position	6,063,187	(8,578,921)	838,267	(94,196)
Net Position - Beginning of Year	112,173,403	120,752,324	31,769,163	31,863,359
Net Position - End of Year	$ 118,236,590	$ 112,173,403	$ 32,607,430	$ 31,769,163

HARRISBURG AREA COMMUNITY COLLEGE
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (as restated)
	Primary Insitution	
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received for tuition and fees	$ 66,146,324	$ 65,620,640
Payments received from grants and contracts	50,412,364	47,692,259
Payments received from auxiliary enterprise charges	13,739,960	14,452,424
Payments received from other revenues	10,354,354	10,838,875
Payments to and on behalf of employees	(105,125,269)	(114,104,633)
Payments to suppliers for goods and services	(41,356,062)	(42,726,895)
Payments for interest	-	-
Payments for contributions and grants	-	-
Payments for financial aid and scholarships	(26,389,336)	(25,757,685)
Net cash (used) by operating activities	(32,217,665)	(43,985,015)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	32,173,052	32,549,392
Local appropriations	7,552,567	7,836,783
Gifts received	1,611,284	2,095,200
Net cash provided by noncapital financing activities	41,336,903	42,481,375
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital debt financing	23,388,079	51,091,682
State and local appropriations	8,273,853	7,591,882
Capital grants and gifts received	1,436,981	1,360,115
Purchases of capital assets	(22,635,324)	(65,362,311)
Proceeds from sale of capital assets	2,336	-
Principal paid on debt and capital leases	(7,523,122)	(6,957,645)
Interest paid on debt and capital leases	(5,579,061)	(4,031,133)
Net cash provided by capital financing activities	(2,636,258)	(16,307,410)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(54,603,591)	(17,436,779)
Proceeds from sale/maturities of investments	47,025,381	3,194,813
Investment income	114,713	781,948
Net cash provided (used) by investing activities	(7,463,497)	(13,460,018)
Increase (decrease) in cash and cash equivalents	(980,517)	(31,271,068)
Cash and cash equivalents - beginning of year	36,190,429	67,461,497
Cash and cash equivalents - end of year	$ 35,209,912	$ 36,190,429
AS REPORTED ON STATEMENTS OF NET POSITION		
Cash and cash equivalents	$ 26,398,377	$ 31,987,515
Restricted cash and cash equivalents	8,811,535	4,202,914
Total cash and cash equivalents	$ 35,209,912	$ 36,190,429

HARRISBURG AREA COMMUNITY COLLEGE
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012 (as restated)
	Primary Insitution	
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income (loss)	$ (39,988,886)	$ (56,911,358)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	11,709,138	9,597,052
Gain on disposal of capital assets	-	14,039
(Increase) Decrease in:		
Accounts receivable	2,221,386	(284,497)
Inventory	(26,403)	(260,811)
Other assets	45,158	743,814
Increase (Decrease) in:		
Unearned revenue	552,948	1,134,492
Accounts payable and accrued expense	(6,092,609)	3,016,862
Compensated absences	(184,241)	(656,404)
Other postemployment benefits	(216,582)	(236,158)
Deposits	(237,574)	(142,046)
Net cash (used) by operating activities	$ (32,217,665)	$ (43,985,015)
NONCASH INVESTING, CAPITAL AND FINANCING TRANSACTIONS		
Capital gifts of equipment and buildings	$ -	$ 13,785
Realized and unrealized gains (losses) on investments	$ (98,335)	$ 6,562

Note 1 Summary of Significant Accounting Policies

Organization

The Harrisburg Area Community College (the "College") is a public comprehensive, two year, co-educational institution, which commenced operations in 1964 under the provisions of the Community College Act of 1963. Campuses are located in Gettysburg, Harrisburg, Lancaster, Lebanon, and York, Pennsylvania. The College is accredited by the Middle States Association of College and Secondary Schools.

Measurement Focus and Basis of Accounting

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities (an Amendment of GASB Statement No. 34).* The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses when materials or services are received. All intercompany accounts and transactions have been eliminated.

Reporting Entity

GASB provides guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The Harrisburg Area Community College Foundation (the "HACC Foundation") and the Wildwood Conference Center Foundation are included in the College's financial statements as component units due to the oversight responsibility of the College in accordance with GASB standards. The criteria used in determining oversight responsibility include financial interdependency, ability to select members of the governing body, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. In accordance with the provisions of the GASB, the HACC Foundation is shown as a discretely presented component unit due primarily to the fact that it was organized for the purpose of receiving gifts and grants and to distribute the available funds to, or for the benefit of, the College. Substantially all of HACC Foundation's expenses for scholarships, contributions, and grants flow through as "state and local grants" income on the College's financial statements. The Wildwood Conference Center Foundation does not meet the requirement for discrete presentation and therefore is shown as a blended component unit and included with the activity of the college. Separate financial statements are available for the HACC Foundation by contacting the College's Office of Finance and College Resources, One HACC Drive, Harrisburg, Pennsylvania 17110-2999.

Note 1 Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The College has adopted GASB Statements No. 34 and 35 (as amended by GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus), and No. 38, Certain Financial Statement Note Disclosures, and No. 63, Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the College as a whole. GASB Statements No. 35 and No. 63 report equity as "net position" rather than "fund balance".

Net Position

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of net position. This standard establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effects on a government's net position. The financial statements incorporate the changes required by Statement No. 63. Net position is classified in the following categories:

Net Investment in capital assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, accounts payable and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce this category.

***Restricted temporarily* -** This includes net position whose use is limited by donor imposed stipulations that can be removed by the passage of time or action of the Foundation pursuant to those stipulations.

***Restricted permanently* -** This includes net position whose use is limited by donor imposed stipulations that cannot be removed by the passage of time or action of the Foundation.

Unrestricted – This category of net position is the amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position represent resources derived from student tuition and fees, state and local appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the College to meet current expenses for any purpose.

***Use of restricted net position* -** The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted funds first when practicable.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

The HACC Foundation follows SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net position: unrestricted net position, temporarily restricted net position, and permanently restricted net position. In addition, the HACC Foundation is considered a non-profit organization and follows FASB pronouncements, not GASB pronouncements. Therefore, it is not subject to the same disclosure requirements as the College.

Management's Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

These include cash on hand, demand deposits, and, in accordance with GASB Statement No. 9, the College's short-term pooled investments in the PSDLAF. For purposes of the statement of net position, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash consists of unspent bond proceeds which are designated to be used for the specific projects that were funded by the bonds.

Investments

Investments are reported at fair value based on quoted market prices.

Total Return Policy - HACC Foundation

The Foundation follows PA Act 141, "Investment of Trust Funds," and has adopted a total return policy for its permanently restricted endowment funds. Based on the PA Act 141 guidelines, the policy has been set into place where income for permanently restricted funds has been redefined to mean a percentage of the value of the trust. This percentage is determined annually by the Foundation Board and applied to the previous three years' average of the market value of the trust as a whole. The percentage must legally fall within the range of 2% to 7% and was approved to be 4% for the years ended June 30, 2013 and 2012. Actual investment return, net of the 4% spending policy, is added back to the permanently restricted corpus. The purpose of this policy is to smooth out the spending of the funds while maintaining the long term preservation of the fund as a whole under the assumption that in the long run, the actual income and growth of the fund will be greater than the spending of the fund.

Note 1 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method (FIFO).

Capital Assets

Buildings and improvements are stated at cost less accumulated depreciation. Equipment is stated at estimated historical cost (based on an appraisal done July 1, 1999, plus actual costs for subsequent purchases) less accumulated depreciation. The College provides for depreciation on the straight-line method over the estimated useful lives of the related assets as shown below. All assets with a purchased cost, or fair value if acquired by gift, in excess of $ 2,000 with an estimated useful life in excess of one year is capitalized. Normal repair and maintenance expenses are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

Asset Type	Useful Life in Years
Buildings	45
Land improvements	20
Equipment	5 - 20
Furniture	20

Deferred Outflows and Inflows of Resources

In March 2012, the GASB issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The College only has one item that qualifies for reporting in this category, which is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The College does not have any items that qualify for reporting in this category.

Note 1 Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums, discounts, and prepaid bond insurance costs are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Prepaid bond insurance costs are reported as other assets and amortized over the term of the related debt.

Income Taxes

The College is considered an activity of the Commonwealth of Pennsylvania and is tax-exempt. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The HACC Foundation and Wildwood Conference Center Foundation are exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

Compensated Absences

Liability for compensated absences is accounted for in accordance with generally accepted accounting principles, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to a maximum of twenty vacation leave days per year and are entitled to compensation for accumulated, unpaid vacation leave upon termination up to a maximum of forty days. Full-time employees also earn up to 12 sick leave days per year and are entitled to compensation for accumulated unpaid sick leave upon retirement. The maximum payout is for 45 sick days.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the College, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense incurred for vacation leave and sick leave is recorded as a component of fringe benefits and payroll taxes on the statement of revenues, expenses, and changes in net position.

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues **-** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, state, local, and nongovernmental grants and contracts; and (4) sales and service of educational activities.

Note 1 Summary of Significant Accounting Policies (Continued)

Classification of Revenues (Continued)

Nonoperating Revenues **-** Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the College receives value without directly giving equal value in return), such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state and local appropriations and investment income.

Accounts Receivable

Accounts receivable relate to transactions involving student tuition and fee billings for semesters in which services are provided, governmental appropriations, grants and contracts, financial aid, and other miscellaneous transactions.

Allowance for Doubtful Accounts

It is the College's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectability experienced by the College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, the Federal Direct Loan Program (FDLP) and the Federal Family Educational Loan (FFEL) Program is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as either operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Note 1 Summary of Significant Accounting Policies (Continued)

Pension Plans

Employees of the College are provided pension benefits through one of three available cost-sharing, multiple-employer retirement plans. The College follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50*, Pension Disclosures*. GASB Statements No. 27 and No. 50 establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures. See Note 11 for additional information.

Note 2 Cash and Cash Equivalents

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a written policy for custodial credit risk. As of June 30, 2013, $ 39,886,613 of the College's bank balance of $ 60,845,875 was exposed to custodial credit risk and as of June 30, 2012, $ 45,988,370 of the College's bank balance of $ 61,667,824 was exposed to custodial credit risk as follows:

	2013	2012
Uninsured and uncollateralized	$ -	$ -
Collateralized with securities held by the pledging financial institution	-	-
Uninsured and collateral held by the pledging bank's trust department but not in the College's name	39,886,613	45,988,370
	$ 39,886,613	$ 45,988,370

Included in investments on the statement of net position are CD's invested in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and various financial institutions in the amount of $ 28,183,541 all with maturities of greater than three months, except for a CD in the amount of $ 2,000,000, as of June 30, 2013. At June 30, 2012, the College held CD's included in short term investments totaling $ 14,212,482. These are considered deposits for purposes of this disclosure.

Note 3 Investments

Credit Risk

Included on the statement of net position are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF) of $ 1,004,475 (classified as cash equivalents). These funds are basically mutual funds that consist of short term money market instruments and seek to maintain a constant net asset value of $ 1 per share. At June 30, 2013, the College's investment in PSDLAF was rated AAAm by Standard and Poor's.

Interest Rate Risk

Investments in PSDLAF are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Note 3 Investments (Continued)

Market Risk

The College's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Investments of the College as of June 30, 2013 are comprised of the following:

	Cost	Fair Value	Unrealized Gains
Governmental Obligations - FHLB	$ 3,860,000	$ 3,860,695	$ 695

The College's governmental obligations are rated AAA by Moody's.

Investments of the HACC Foundation as of June 30, 2013 and 2012 are comprised of the following:

	2013		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	$ 678,465	$ 678,465	$ -
Equities by industry:			
Consumer discretionary	689,063	903,801	214,738
Consumer staples	791,288	1,023,254	231,966
Energy	763,351	817,245	53,894
Exchange-traded fund	789,102	841,146	52,044
Financial	1,016,405	1,215,470	199,065
Health care	998,424	1,223,128	224,704
Industrials	573,199	726,543	153,344
Information technology	985,896	1,244,768	258,872
Materials	294,185	313,365	19,180
Telecommunication services	327,138	318,879	(8,259)
Utilities	190,131	201,181	11,050
Total equities	7,418,182	8,828,780	1,410,598
Mutual funds by type:			
Growth	4,595,519	5,745,040	1,149,521
Value	2,061,818	2,394,672	332,854
International	2,051,072	2,083,426	32,354
Real estate	1,208,138	1,260,559	52,421
Fixed income	8,500,100	8,247,469	(252,631)
Total mutual funds	18,416,647	19,731,166	1,314,519
Corporate bonds	406,402	416,289	9,887
Total	$ 26,919,696	$ 29,654,700	$ 2,735,004

Note 4 Accounts Receivable (Continued)

	2012		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	$ 1,146,952	$ 1,146,952	$ -
Equities by industry:			
Consumer discretionary	612,931	775,328	162,397
Consumer staples	763,740	1,009,855	246,115
Energy	858,976	862,951	3,975
Exchange-traded fund	1,239,268	1,269,085	29,817
Financial	840,649	999,590	158,941
Health care	430,586	493,917	63,331
Industrials	986,257	1,340,387	354,130
Information technology	285,946	281,789	(4,157)
Materials	188,791	186,281	(2,510)
Telecommunication services	131,560	150,156	18,596
Utilities	105,809	112,640	6,831
Total equities	6,444,513	7,481,979	1,037,466
Mutual funds by type:			
Growth	1,596,531	1,746,723	150,192
Index	4,029,033	4,268,904	239,871
Value	1,709,952	1,738,165	28,213
International	2,295,342	2,111,593	(183,749)
Fixed income	8,131,655	8,198,679	67,024
Other	576,670	598,505	21,835
Total mutual funds	18,339,183	18,662,569	323,386
Government obligations	10,175	10,052	(123)
Corporate bonds	521,324	535,872	14,548
Total	$ 26,462,147	$ 27,837,424	$ 1,375,277

Accounts receivable consist of the following at June 30:

	College		Foundation	
	2013	2012	2013	2012
Student Tuition and fees	$ 6,664,371	$ 6,990,115	$ -	$ -
Allowance for doubtful accounts	(1,525,000)	(1,110,000)	-	-
Grants and contracts receivable	2,984,667	3,404,400	-	-
State appropriations receivable	-	-	-	-
Bookstore receivables	80,392	1,007,764	-	-
Other receivables	592,168	727,795	28,205	26,409
Pledges receivable (net)	-	-	2,483,522	2,997,627
Total	$ 8,796,598	$ 11,020,074	$ 2,511,727	$ 3,024,036

Bookstore receivables include $ 1,421,544 and $ 962,997 in vendor credit memos at June 30, 2013 and 2012, respectively.

Note 4 Accounts Receivable (Continued)

Pledges receivable of the Foundation, representing donor promises to give, have been discounted to their present value assuming their respective terms and a discount rate of 1.2% at June 30, 2013 and 1.0% at June 30, 2012. The unamortized discount was $ 68,721 and $ 156,439 at June 30, 2013 and 2012, respectively.

Note 5 Capital Assets

The following is a summary of capital asset transactions of the College for the years ended June 30, 2013 and 2012:

2013	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land (not being depreciated)	$ 9,761,938	$ 1,120,286	$ -	$ 10,882,224
Building	130,087,844	25,083,103	-	155,170,947
Improvements - land	3,759,236	3,074,054	-	6,833,290
Improvements - building	57,531,255	1,388,845	-	58,920,100
Improvements - leasehold	17,427,316	-	-	17,427,316
Instructional equipment	33,791,746	1,561,134	(16,466)	35,336,414
Non-instructional equipment	23,385,928	1,452,906	(5,000)	24,833,834
Construction in progress (not being depreciated)	14,188,154	2,638,098	(14,291,559)	2,534,693
Total cost	289,933,417	36,318,426	(14,313,025)	311,938,818
Less accumulated depreciation:				
Building	(31,943,381)	(3,122,453)	-	(35,065,834)
Improvements - land	(873,146)	(290,558)	-	(1,163,704)
Improvements - building	(16,260,291)	(2,749,446)	-	(19,009,737)
Improvements - leasehold	(4,687,498)	(849,013)	-	(5,536,511)
Instructional equipment	(19,971,379)	(1,682,314)	15,635	(21,638,058)
Non-instructional equipment	(18,815,928)	(2,187,902)	5,000	(20,998,830)
Total accumulated depreciation	(92,551,623)	(10,881,686)	20,635	(103,412,674)
Capital assets, net	$ 197,381,794	$ 25,436,740	$ (14,292,390)	$ 208,526,144

Note 5 Capital Assets (Continued)

2012	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land (not being depreciated)	$ 4,608,961	$ 5,152,977	$ -	$ 9,761,938
Building	86,198,797	43,889,047	-	130,087,844
Improvements - land	2,494,479	1,264,757	-	3,759,236
Improvements - building	53,121,795	4,409,460	-	57,531,255
Improvements - leasehold	15,882,335	1,544,981	-	17,427,316
Instructional equipment	32,995,666	827,511	(31,431)	33,791,746
Non-instructional equipment	21,307,039	2,117,387	(38,498)	23,385,928
Construction in progress (not being depreciated)	4,538,409	14,188,154	(4,538,409)	14,188,154
Total cost	221,147,481	73,394,274	(4,608,338)	289,933,417
Less accumulated depreciation:				
Building	(29,399,392)	(2,543,989)	-	(31,943,381)
Improvements - land	(720,599)	(152,547)	-	(873,146)
Improvements - building	(14,012,446)	(2,247,845)	-	(16,260,291)
Improvements - leasehold	(3,891,554)	(795,944)	-	(4,687,498)
Instructional equipment	(18,244,763)	(1,756,411)	29,795	(19,971,379)
Non-instructional equipment	(16,814,630)	(2,027,393)	26,095	(18,815,928)
Total accumulated depreciation	(83,083,384)	(9,524,129)	55,890	(92,551,623)
Capital assets, net	$ 138,064,097	$ 63,870,145	$ (4,552,448)	$ 197,381,794

Note 6 Other Assets

Other assets of the College at June 30 consist of:

	2013	2012
Prepaid expenses	$ 533,259	$ 623,826
Prepaid bond insurance	1,299,596	1,678,938
Accumulated amortization - prepaid bond insurance	(370,165)	(457,425)
	$ 1,462,690	$ 1,845,339

Note 7 Long-Term Liabilities

Long-term liabilities had the following activity during the years ended June 30, 2013 and 2012:

2013

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 4,193	$ -	$ (4,193)	$ -	$ -	$ -
Bonds and notes payable:						
Series of 2004	10,725,000	-	(1,795,000)	8,930,000	1,865,000	7,065,000
Series of 2005	1,820,000	-	(585,000)	1,235,000	605,000	630,000
Series of 2008	22,815,000	-	(1,255,000)	21,560,000	1,310,000	20,250,000
Series of 2009	16,800,000	-	(805,000)	15,995,000	830,000	15,165,000
Series of 2009A	10,115,000	-	(1,285,000)	8,830,000	1,310,000	7,520,000
Series of 2010	15,275,000	-	(5,000)	15,270,000	5,000	15,265,000
Series of 2011	49,790,000	-	(1,650,000)	48,140,000	1,695,000	46,445,000
Series of 2012	-	14,860,000	-	14,860,000	555,000	14,305,000
Series of 2013	-	8,185,000	-	8,185,000	955,000	7,230,000
Revolving Loan	138,929	-	(138,929)	-	-	-
Bond premium	245,853	246,094	(31,988)	459,959	26,322	433,637
Bond discount	(481,590)	(437,623)	57,561	(861,652)	(55,093)	(806,559)
Total leases and bonds/notes payable	127,247,385	22,853,471	(7,497,549)	142,603,307	9,101,229	133,502,078
Other liabilities:						
Compensated absences:						
Vacation leave	3,136,730	-	(10,675)	3,126,055	436,388	2,689,667
Sick leave	2,685,381	282,326	-	2,967,707	430,697	2,537,010
Early retirement payable	455,892	-	(455,892)	-	-	-
Total other liabilities	6,278,003	282,326	(466,567)	6,093,762	867,085	5,226,677
Total long-term liabilities	$ 133,525,388	$ 23,135,797	$ (7,964,116)	$ 148,697,069	$ 9,968,314	$ 138,728,755

2012

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Long-term Portion
Leases and bonds/notes payable:						
Capital lease obligation	$ 46,047	$ -	$ (41,854)	$ 4,193	$ 4,193	$ -
Bonds and notes payable:						
Series of 2004	12,470,000	-	(1,745,000)	10,725,000	1,795,000	8,930,000
Series of 2005	2,390,000	-	(570,000)	1,820,000	585,000	1,235,000
Series of 2008	24,015,000	-	(1,200,000)	22,815,000	1,255,000	21,560,000
Series of 2009	17,385,000	-	(585,000)	16,800,000	805,000	15,995,000
Series of 2009A	11,380,000	-	(1,265,000)	10,115,000	1,285,000	8,830,000
Series of 2010	15,280,000	-	(5,000)	15,275,000	5,000	15,270,000
Series of 2011	-	51,010,000	(1,220,000)	49,790,000	1,650,000	48,140,000
Revolving Loan	464,721	-	(325,792)	138,929	138,929	-
Bond premium	34,985	219,327	(8,459)	245,853	13,130	232,723
Bond discount	(512,561)	-	30,971	(481,590)	(30,971)	(450,619)
Total leases and bonds/notes payable	82,953,192	51,229,327	(6,935,134)	127,247,385	7,505,281	119,742,104
Other liabilities:						
Compensated absences:						
Vacation leave	3,692,130	274,439	(829,839)	3,136,730	342,198	2,794,532
Sick leave	3,232,630	402,233	(949,482)	2,685,381	350,611	2,334,770
Early retirement payable	-	455,892	-	455,892	455,892	-
Total other liabilities	6,924,760	1,132,564	(1,779,321)	6,278,003	1,148,701	5,129,302
Total long-term liabilities	$ 89,877,952	$ 52,361,891	$ (8,714,455)	$ 133,525,388	$ 8,653,982	$ 124,871,406

Note 7 Long-Term Liabilities (Continued)

Bonds Payable

Revenue bonds payable to the State Public School Building Authority (SPSBA) at June 30, 2013 and 2012 consist of the following:

	2013	2012
2004, issued $ 26,530,000 in July 2004; at a fixed rate of 2.25% - 5.25%; interest and principal payable semi-annually through April 2024.	$ 8,930,000	$ 10,725,000
2005, issued $ 5,435,000 in July 2005; at a fixed rate of 3.00% - 4.00%; interest and principal payable semi-annually through April 2015.	1,235,000	1,820,000
2008, issued $ 26,275,000 in December 2008; at a fixed rate of 4.00% - 5.75%; interest and principal payable semi-annually through October 2029.	21,560,000	22,815,000
2009, issued $ 17,390,000 in May 2009; at a fixed rate of 2.00 - 4.50%; interest and principal payable semi-annually through October 2027.	15,995,000	16,800,000
2009A, issued $12,160,000 in November 2009; at a fixed rate of 2.00%-4.00%; interest and princpal payable semi-annually through October 2027	8,830,000	10,115,000
2010, issued $15,280,000 in May 2010; at a fixed rate of 3.00%-4.00%; interest and principal payable semi-annually through October 2030	15,270,000	15,275,000
2011, issued $51,010,000 in December 2011; at a fixed rate of 2.00%-5.00%; interest and princpal payable semi-annually through October 2031	48,140,000	49,790,000
2012, issued $14,860,000 in October 2012; at a fixed rate of 0.90%-3.75%; interest and principal payable semi-annually through October 2032	14,860,000	-
2013, issued $8,185,000 in April 2013; at a fixed rate of 1.00%-2.25%; interest and principal payable semi-annually through October 2021	8,185,000	-
Total bonds payable	$ 143,005,000	$ 127,340,000

The bonds are guaranteed by a municipal bond insurance policy. In addition, the College has pledged to include debt service payments due each fiscal year in its budget for such fiscal year.

Note 7 Long-Term Liabilities (Continued)

Note Payable

The revolving loan note payable of $ 0 and $138,929 for the years ended June 30, 2013 and 2012, respectively, to the State Public School Building Authority (SPSBA) dated April 1, 2008 has a fixed interest rate of 2.78% and a maturity date of December 1, 2012. Interest and principal are payable semi-annually beginning June 1, 2008. This note was fully drawn as of June 30, 2009 for the full amount of $ 1,575,000. The balance was paid off during the current year.

Future Maturities

Under an agreement with the Commonwealth of Pennsylvania, a portion of the principal and interest on outstanding SPSBA bonds eligible for state reimbursement will be paid by the Commonwealth on a reimbursement basis. The combined aggregate amounts of maturities of all bonds and notes are as follows:

Year ending	State Share		College Share		Total	Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	$ 3,529,087	$ 1,792,570	$ 5,610,913	$ 3,881,376	$ 9,140,000	$ 5,673,946	$ 14,813,946
2015	3,199,250	1,746,562	5,505,750	3,630,523	8,705,000	5,377,085	14,082,085
2016	2,971,750	1,647,906	4,928,250	3,457,263	7,900,000	5,105,169	13,005,169
2017	3,074,250	1,548,138	5,105,750	3,274,238	8,180,000	4,822,376	13,002,376
2018	3,016,750	1,440,414	4,988,250	3,076,214	8,005,000	4,516,628	12,521,628
2019-2023	14,668,750	5,562,087	25,751,250	12,248,399	40,420,000	17,810,486	58,230,486
2024-2028	12,296,250	2,885,358	24,333,750	6,674,068	36,630,000	9,559,426	46,189,426
2029-2033	7,991,250	704,269	16,033,750	1,512,871	24,025,000	2,217,139	26,242,139
Total	$ 50,747,337	$ 17,327,303	$ 92,257,663	$ 37,754,951	$ 143,005,000	$ 55,082,254	$ 198,087,254

Note 8 Leases

Operating Leases

The College has entered into noncancelable operating leases for certain campus facilities and equipment. Minimum lease payments in future years are as follows:

2014	$ 4,848,374
2015	3,272,034
2016	2,982,068
2017	2,741,039
2018	2,627,805
2019-2022	10,500,000
Total minimum lease payments	$ 26,971,320

The total rent under operating leases for the years ended June 30, 2013 and 2012 was $ 5,713,121 and $ 7,552,357, respectively.

Note 9 Due to the Commonwealth of Pennsylvania

Included in accounts payable and accrued expenses are amounts due to the Commonwealth of Pennsylvania as of June 30, representing the outstanding deficiency of reimbursable operating and capital expenditures compared to the advances received from the Commonwealth. The outstanding amounts due to the Commonwealth are $ 78,364 and $ 264,662 as of June 30, 2013 and 2012, respectively.

Under the terms of the Commonwealth Community College Funding Legislation (Act 46), annual audits are prepared by each College's external audit firm and submitted to the Department of Education for review. Such audits could lead to reimbursement of appropriated funds to the Commonwealth. College management believes that reimbursements, if any, will be immaterial.

Note 10 Risk Management

The College is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees and students, and natural disasters.

The College has purchased commercial insurance to cover general and professional liability, directors and officers liability, worker's compensation, accident insurance, flood, unemployment compensation, and employees' health coverage. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

The College is self-insured for dental coverage and a prescription drug plan. The liability for estimated claims at June 30, 2013 and 2012 represents three months of claims paid. Changes in the College's claims liability amount for the years ended June 30 were:

	2013	2012
Beginning balance	$ 341,286	$ 312,232
Claims made/Changes in estimates	1,520,318	2,791,782
Claims paid	(1,717,843)	(2,762,728)
Ending balance	$ 143,761	$ 341,286

Note 11 Pension Benefits

Substantially all of the employees of the College are covered by one of three multi-employer contributory pension plans; the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS), or the Commonwealth of Pennsylvania State Employees' Retirement System (SERS).

The Public School Employees' Retirement System ("PSERS") and the Commonwealth of Pennsylvania State Employees' Retirement System ("SERS") are governmental cost-sharing multiple-employer defined benefit plans.

Note 11 Pension Benefits (Continued)

PSERS Plan Description

Name of plan: Public School Employees' Retirement System (the System)

Type of plan: Governmental cost-sharing multiple-employer defined-benefit plan

Benefits: Retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

Authority: The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. § 8101-8535)

Annual Financial Report: The System issues a *Comprehensive Annual Financial Report (CAFR)* that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to the Office of Financial Management, Public School Employees' Retirement System, 5 N 5th Street, Harrisburg PA 17101-1905. The *CAFR* is also available on the Publications page of the PSERS website.

Funding Policy

Authority: The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth.

Contribution rates

Member Contributions **–**

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Note 11 Pension Benefits (Continued)

The contribution rate for the College is an actuarially determined rate. The rate at June 30, 2013, 2012, and 2011 was 6.18, 4.325, and 2.82 percent of annual covered payroll, respectively. The College's contributions to PSERS for the years ended June 30, 2013, 2012, and 2011, were $ 263,731, $ 221,346, and $ 131,830, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, there was no pension liability or asset for the PSERS plan. The Commonwealth of Pennsylvania reimburses the College approximately one-half of the contributions to PSERS.

The contribution policy for SERS, as established by the SERS Board, requires contributions by active members and employers. As of January 1, 2002, active members could make an election to increase contributions from a rate of 5% to 6.25% of their qualifying compensation. The contribution rate for the College is an actuarially determined rate, which was 8.43 percent for Class A, 10.51 percent for Class AA, and 7.29 percent for Class A-3 and A-4 for the year ended June 30, 2013, and 4.83 percent for Class A-3 and 6.99 percent for Class AA for the year ended June 30, 2012, respectively. There were no eligible employees for Class A for the year ended June 30, 2012. The College's contributions to SERS for the years ended June 30, 2013, 2012, and 2011, were $ 672,241, $ 565,062, and $ 221,951, respectively, equal to the required contractual contribution. At the time of transition to GASB No. 27, there was no pension liability or asset for the SERS plan.

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund (TIAA-CREF) is a cost-sharing, multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employer and employee contribution rates are established by statute. The contribution policy, as established by statute, requires contributions by active members and employers. Active members contribute at a rate of 5 percent of their qualifying compensation; the College's contribution rate for each of the years ended June 30, 2013, 2012, and 2011 was 10 percent of qualifying compensation. In addition, employees may contribute to TIAA-CREF through the Supplemental Retirement Annuity.

The contributions to TIAA-CREF for the years ended June 30 were as follows:

	2013	2012	2011
College	$ 4,462,741	$ 5,338,446	$ 4,925,211
Employees	4,305,022	4,583,429	4,325,163

Note 12 Postemployment Healthcare Plan

Plan Description

The College has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the College. The plan provides medical and prescription drug coverage for both retiree and family. To continue coverage upon retirement, the retiree must reimburse the College 100% of the College's cost of coverage. After age 65, the coverage shall change to a Medicare Supplement Plan with a Medicare Part D Prescription Drug rider or with the plan prescription drug at an adjusted premium.

Funding Policy

The contribution requirements of plan members and the College are established and may be amended by the College. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the College. For fiscal years 2013 and 2012, the estimated contributions were $ 86,281 and $ 70,576 in the form of additional premiums for active employees based on implicit rates for retired employees to the plan. Plan members receiving benefits also contributed $ 250,394 for 2013 and $ 270,691 for 2012, or 100% of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB obligation to the plan:

	2013	2012
Annual required contribution	$ 315,380	$ 315,380
Interest on net OPEB obligation	34,364	23,737
Adjustments to ARC	(46,881)	(32,383)
Annual OPEB cost	302,863	306,734
Employer contributions made (estimated)	(86,281)	(70,576)
Increase in net OPEB obligation	216,582	236,158
Net OPEB obligation - beginning of year	763,638	527,480
Net OPEB obligation - end of year	$ 980,220	$ 763,638

Note 12 Postemployment Healthcare Plan

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	June 30 Net OPEB Obligation
2013	$ 302,863	28.49%	$ 980,220
2012	306,734	23.01%	763,638
2011	267,379	28.80%	527,480

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/11	$ -	$ 1,694,666	$ 1,694,666	0.00%	$ 52,739,477	3.21%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), annual salary increase of 4.25-7%, and an annual healthcare cost trend rate of 8 percent in 2011, decreasing 0.5 percent to an ultimate rate of 5.5% in 2016 and later. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open amortization period.

Note 13 Contingencies and Commitments

Contingencies

The nature of the educational industry is such that, from time to time, the College is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to and/or destruction of assets; errors and omissions; injuries to employees and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. Management does not expect that the resolution of any other outstanding claims and litigation, of which there are several being defended by the College, will have a material adverse effect on the financial position of the College.

Lancaster Campus Phase II Construction Disputes

Harrisburg Area Community College ("HACC") leases the Lancaster Campus from Pitney Road Partners, LLC ("Pitney") under an agreement that includes an option to purchase. Under this agreement, Pitney agreed to construct a new building at the Lancaster Campus and contracted with Warfel Construction Company ("Warfel"). Pitney financed the construction of the Lancaster Campus through the issuance of bonds backed by a letter of credit issued through a consortium of banks ("Lender Group"). Although the contract between Pitney and Warfel contained a guaranteed maximum price, disputes arose between them regarding the final construction costs. The dispute proceeded to arbitration, and after extensive settlement negotiations, Warfel agreed to accept a total of $ 4.9 million. Of that amount, approximately $ 2.1 million was covered by the balance held in a project fund. Pitney and HACC each agreed to contribute an amount slightly in excess of $1.4 million, achieving the total cash payment to Warfel of $ 4.9 million. The $ 1.4 million agreed to by HACC was paid in August 2007, and recorded as other assets pending the outcome of the arbitration process and the final determination of exercising the option to purchase.

Pitney initiated litigation against HACC to recover the additional construction costs awarded by the arbitration panel to Warfel, as well as other alleged damages. Indirectly as a result of the disputes and litigations pending, the trustee called one of the series of bonds, resulting in the drawdown of the letter of credit supporting the bonds and a default under the financing arrangements. The Lender Group agreed to forebear on any claims or potential claims against Pitney and HACC arising out of the alleged defaults in the financial agreements, while Pitney and HACC resolve their disputes. Pitney and HACC agreed to arbitrate all disputes between them, including which party is responsible for the cost overruns paid to Warfel and for the claims of the Lender Group.

On June 14, 2011, the arbitrators issued an interim award. The arbitrators awarded Pitney most of the additional construction costs Pitney incurred, and they also reaffirmed HACC's contractual right to purchase the Campus. The arbitrators concluded that HACC should have been able to purchase the property as of January 1, 2010. The arbitrators requested additional submissions from the parties regarding calculation of purchase price and other miscellaneous issues.

Note 13 Contingencies and Commitments (Continued)

Lancaster Campus Phase II Construction Disputes (Continued)

On September 29, 2011 the arbitrators issued a final award which allowed HACC to purchase the Campus with a settlement date of December 5, 2011. The final purchase price determined by arbitrators was $51,083,974. Subsequent to the final award, additional disputes arose between the parties regarding various aspects of the purchase price, transfer taxes and rent. Although Pitney's position was that these disputes precluded closing from proceeding, the College obtained a Court Order to compel the closing to occur as scheduled, with the disputes to be resolved following closing. The College purchased the property through bond funding of $51,010,000 with the remaining funds provided through an escrow account held for the purchase of the Campus.

Closing occurred on December 15, 2011, mid-month. The College took the position that it has paid rent for the month of December at the beginning of the month. Since the lease was terminated mid-month, the College took the position that it was entitled to a credit for roughly 50% of December's rent, an amount the College calculated to be $ 142,699. Pitney disputed the College's claim for rent proration. The College agreed to place an additional sum of $ 142,699 into an escrow account. It was determined that this matter should be returned to the Arbitration Panel for clarification. In addition, Pitney asserted in its own claim with respect to rent to contend that since the College's rent was in effect covering Pitney's debt service, rent was being paid a month in arrears. Under this theory, the College would still owe rent for at least one-half of December 2011. Pitney also contends that the College was responsible for all debt service related to Pitney's bond refinancing that did not occur until January 2012, resulting in additional debt service for Pitney. Pitney calculates the amount of additional debt service costs incurred to be approximately $ 750,000. This matter was also referred to the Arbitration Panel.

In addition, plans for construction of the Lancaster Campus included certain improvements to public roads immediately adjacent to the Lancaster Campus. During the planning phase and construction phase of the Lancaster Campus, various agreements were entered into between Pitney and East Lampeter Township regarding these road improvements. For various reasons, the road improvements were never completed while Pitney owned the property. However, Pitney had posted performance bonds in the amount slightly in excess of $ 250,000. The road improvement issues were only indirectly raised during the primary arbitration. More recently, East Lampeter Township demanded payment under the performance bonds. Pitney challenged the actions of East Lampeter Township, contending that the bonds were no longer enforceable, and that Pitney was not responsible for the road improvements sought by East Lampeter Township. The Township then approached the College, essentially requesting that the College undertake the road improvements. The College's position is that the obligation is Pitney's and not the College's. This matter was referred to the same Arbitration Panel as previously noted.

A decision from the Arbitration Panel is expected before the end of the calendar year 2013 for both of these matters.

Note 13 Contingencies and Commitments (Continued)

Commitments

As of June 30, 2013, the College had commitments for the following projects:

	Total Estimated Costs	Total Costs Paid as of June 30, 2013
Central Renovations - Wildwood Center	$ 7,132,952	$ 2,223,620
Gettysburg paving	1,002,904	809,911
	$ 8,135,856	$ 3,033,531

Note 14 State Appropriations

The following shows the detail of state appropriations earned for the years ended June 30:

	2013	2012
Included in non-operating revenue:		
Social security reimbursement	$ 2,726,013	$ 3,119,417
Tuition reimbursement	29,664,165	29,664,168
Sub-total	32,390,178	32,783,585
Included in capital contributions:		
Debt reimbursement	5,014,951	3,964,866
Lease reimbursement	2,258,902	2,827,016
Sub-total	7,273,853	6,791,882
Total	$ 39,664,031	$ 39,575,467

Note 15 Net Position

College

The following shows the details of net investment in capital assets at June 30:

	2013	2012
Capital assets, net	$ 208,526,144	$ 197,381,794
Bonds and notes payable, net	(142,721,723)	(126,948,600)
Capital lease payable	-	(4,193)
Unspent bond proceeds	8,811,535	4,202,914
Total	$ 74,615,956	$ 74,631,915

The remaining net position of the College is considered unrestricted.

Note 15 Net Position (Continued)

HACC Foundation:

The Foundation's board of directors has chosen to place the following limitations on unrestricted net position at June 30:

	2013	2012
Designated for endowment purposes	$ 1,074,906	$ 976,555
Undesignated	1,052,192	733,274
	$ 2,127,098	$ 1,709,829

Temporarily restricted net position is available for the following purposes or periods at June 30:

	2013	2012
Scholarships and awards	$ 3,701,826	$ 3,529,626
Adcademic support	2,114,255	2,549,796
Capital improvements	7,079,706	7,524,366
Other	944,600	618,873
	$ 13,840,387	$ 14,222,661

Permanently restricted net position is to provide a permanent endowment restricted for various purposes as follows at June 30:

	2013	2012
Scholarships and awards	$ 13,942,143	$ 13,586,514
Academic support	234,142	216,624
Other	2,463,660	2,033,535
	$ 16,639,945	$ 15,836,673

Note 16. Restatement

A restatement was necessary to reclassify construction in progress from other assets to capital assets as of June 30, 2012. There was also a restatement necessary to remove the federal direct loan program from the revenues and expenses that were previously reported and resulted in a duplication of tuition revenue and operating expenses.

	Net Position	Capital Assets	Other Assets
As originally stated, June 30, 2012	$ 112,173,403	$ 196,881,781	$ 2,345,352
Restatement to reclassify capital assets	-	500,013	(500,013)
As restated, June 30, 2012	$ 112,173,403	$ 197,381,794	$ 1,845,339

	Change in Net Position	Revenue Direct Loan Program	Expenses Direct Loan Program
As originally stated, year ended June 30, 2012	$ (8,578,921)	$ 89,753,813	$ 89,753,813
Restatement to remove federal direct loan program	-	(89,753,813)	(89,753,813)
As restated, year ended June 30, 2012	$ (8,578,921)	$ -	$ -

REQUIRED SUPPLEMENTARY INFORMATION

HARRISBURG AREA COMMUNITY COLLEGE
OPEB (Other Post Employment Benefit Plan)
Unaudited Required Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/11	$ -	$ 1,694,666	$ 1,694,666	0.00%	$ 52,739,477	3.21%
07/01/09	$ -	$ 1,400,030	$ 1,400,030	0.00%	$ 48,710,163	2.87%
07/01/07	$ -	$ 1,488,936	$ 1,488,936	0.00%	$ 41,908,646	3.55%

OTHER SUPPLEMENTARY INFORMATION

HARRISBURG AREA COMMUNITY COLLEGE
Schedules of Expenses by Functional Classification - Primary Institution
Years Ended June 30, 2013 and 2012

2013

Functional Classification	Natural Classification							
	Salaries and Wages	**Fringe Benefits**	**Supplies & Other Expense**	**Professional & Purchased Services**	**Utilities**	**Depreciation**	**Scholarships**	**Total**
Instruction	$ 45,108,181	$ 11,587,846	$ 4,081,088	$ 1,372,145	$ 127,616	$ 0	$ 161,709	$ 62,438,585
Research	0	0	889	0	0	0	0	889
Public Support	469,819	39,835	61,468	0	0	0	0	571,122
Academic Support	6,068,047	2,051,152	1,251,323	162,843	0	0	0	9,533,365
Student Services	9,657,247	3,937,525	555,853	965,510	0	0	6,940	15,123,075
Institutional Support	9,421,408	5,749,870	7,106,409	1,888,926	1,454	2,885,354	0	27,053,421
Operation and Maintenance of Plant	3,198,703	1,601,532	6,849,950	1,012,497	3,721,499	8,823,784	0	25,207,965
Student Aid	445,378	0	45,549	0	0	0	26,226,782	26,717,709
Auxiliary Enterprises	1,314,150	572,741	10,162,563	31,340	82,793	0	0	12,163,587
Total operating expenses	$ 75,682,933	$ 25,540,501	$ 30,115,092	$ 5,433,261	$ 3,933,362	$ 11,709,138	$ 26,395,431	$ 178,809,718
Interest expense								5,692,947
Total expenses								$ 184,502,665

2012

Functional Classification	Natural Classification							
	Salaries and Wages	Fringe Benefits	Supplies & Other Expense	Professional & Purchased Services	Utilities	Depreciation	Scholarships	Total
Instruction	$ 49,926,742	$ 13,547,109	$ 3,669,338	$ 1,519,246	$ 137,577	$ 0	$ 175,849	$ 68,975,861
Research	0	0	4,111	0	0	0	0	4,111
Public Support	66,813	0	27,714	200	0	0	0	94,727
Academic Support	6,968,201	2,538,501	1,664,831	261,456	0	0	0	11,432,989
Student Services	11,980,475	4,876,657	572,196	846,141	0	0	500	18,275,969
Institutional Support	11,138,119	5,208,677	6,689,381	2,277,624	236	2,153,780	0	27,467,817
Operation and Maintenance of Plant	3,848,905	1,970,538	11,538,756	1,264,772	3,941,614	7,443,272	0	30,007,857
Student Aid	484,016	0	44,903	0	0	0	25,562,260	26,091,179
Auxiliary Enterprises	1,467,295	568,153	10,531,136	105,484	85,821	0	0	12,757,889
Total operating expenses	$ 85,880,566	$ 28,709,635	$ 34,742,366	$ 6,274,923	$ 4,165,248	$ 9,597,052	$ 25,738,609	$ 195,108,399
Interest expense								4,279,203
Total expenses								$ 199,387,602

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Cash Receipts	Accrual Basis Expenditures
DEPARTMENT OF EDUCATION			
Student Financial Aid			
Cluster:			
FSEOG Program	84.007	$ 494,798	$ 489,269
FWS Program	84.033	409,251	467,629
PELL Program	84.063	33,731,763	34,160,976
Direct Student Loan Program	84.268	87,695,860	87,479,666
Total cluster		122,331,672	122,597,540
Gear Up Grants	84.334	126,292	124,211
Total student financial aid		122,457,964	122,721,751
Passed through Pennsylvania Department of Education			
Adult Basic Education	84.002	88,674	88,674
Vocational Educational Grants Perkins III	84.048	702,016	658,037
Total passed through Pennsylvania Department of Education		790,690	746,711
Passed through Tri-County Opportunities Industrialization Center, Inc.			
Adult Basic Education	84.002	3,705	-
Total passed through Tri-County Opportunities Industrialization Center, Inc.		3,705	-
Total Department of Education		123,252,359	123,468,462
UNITED STATES TREASURY			
Americorp	94.006	34,562	36,298
DEPARTMENT OF LABOR			
Trade Adjustment Assistance Community College and Career Training	17.282	606,942	633,232
Passed through Southcentral Workforce Investment Board (SCWIB)			
WIA Cluster:			
Title I Adult Program Services and Activities	17.258	831,619	846,188
Title I Dislocated Worker Program Serivces and Activities	17.278	846,607	764,206
Title I Youth Year Round Program Services and Activities	17.259	12,720	16,750
Title I Youth Literacy	17.259	4,184	-
Total WIA Cluster passed through SCWIB		1,695,130	1,627,144
Other:			
ARRA - Upskilling Green Labor and Industry	17.275	85,815	67,513
Total Department of Labor		2,387,887	2,327,889
NATIONAL ENDOWMENT FOR THE ARTS			
Passed through Mid-Atlantic Arts Foundation			
MAAF - Ron Carter Trio	45.025	2,120	2,120
MAAF - Lulu Washington Dance Company	45.025	5,900	5,900
Total National Endowment for the Arts		8,020	8,020
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Child Care Consultants, Inc.			
PA Keys ECE Credential Program	93.575	106,630	124,090
Total passed through Child Care Consultants, Inc.		106,630	124,090
Passed through InspiriTec Corporation			
Keystone education yields success (KEYS)	93.558	357,941	356,924
Total passed through InspiriTec Corporation		357,941	356,924
Total Department of Health and Human Services		464,571	481,014

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Cash Receipts	Accrual Basis Expenditures
DEPARTMENT OF HOMELAND SECURITY			
Passed through Pennyslvania Emergency Management Agency			
PEMA Emergency Assistance - Disaster Recovery	97.036	48,625	10,304
Total passed through Pennsylvania Emergency Management Agency		48,625	10,304
Passed through the City of Philadelphia			
PA Urban Search and Rescue Task Force	97.025	402,035	571,122
Total passed through the City of Philadelphia		402,035	571,122
Passed through Lancaster/Lebanon IU			
Citizenship Grant	97.010	5,081	5,177
Total passed through Lancaster/Lebanon IU		5,081	5,177
Total Department of Homeland Security		455,741	586,603
ENVIRONMENTAL PROTECTION AGENCY			
Brownfield Job Training Agreement	66.815	56,262	28,605
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Passed through Dickinson College			
Cooling the Liberal Arts Cirriculum	43.AAA	5,316	8,892
Total federal financial assistance		$ 126,664,718	$ 126,945,783

Note 1 General Information

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of the Harrisburg Area Community College (the College). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

Note 2 Relationship to Basic Financial Statements

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the College. It is not intended to, and does not, present either the financial position, changes in net position, or cash flows of the College. The financial activity for the aforementioned awards is reported in the College's statement of revenues, expenses, and changes in net position. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards, due to program expenditures exceeding grant or contract budget limitations which are not reported as expenditures in the Schedule of Expenditures of Federal Awards.

Note 3 Basis of Presentation/Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal awards activity of the College and the expenditures are presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

Note 4 Administrative Expenses

The expenditures in the accompanying Schedule of Expenditures of Federal Awards include an allocation of administrative expenses. Those allocations are based upon amounts permitted under each individual financial assistance program.

Note 5 Grant from Multiple Sources

The Adult Basic Education Grant (CFDA Number 84.002) was received from two different funding sources as summarized below:

	Cash Receipts	Accrual Basis Expenditures
Adult Basic Education (passed through PA Department of Education)	$ 88,674	$ 88,674
Adult Basic Education (passed through Tri-County Opportunities Industrialization Center, Inc.)	3,705	0
Total Adult Basic Education - CFDA Number 84.002	$ 92,379	$ 88,674

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities and the discretely presented component unit of Harrisburg Area Community College as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Harrisburg Area Community College's basic financial statements, and have issued our report thereon dated October 10, 2013. The financial statements of Harrisburg Area Community College Foundation were not audited in accordance with *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Harrisburg Area Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrisburg Area Community College' internal control. Accordingly, we do not express an opinion on the effectiveness of Harrisburg Area Community College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2013-01 through 2013-03 to be material weaknesses.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Trustees
Harrisburg Area Community College

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Harrisburg Area Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

HARRISBURG AREA COMMUNITY COLLEGE'S RESPONSE TO FINDINGS

Harrisburg Area Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Harrisburg Area Community College's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 16, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133*

Board of Trustees
Harrisburg Area Community College
Harrisburg, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Harrisburg Area Community College's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harrisburg Area Community College's major federal programs for the year ended June 30, 2013. Harrisburg Area Community College's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of Harrisburg Area Community College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 required that we plan and perform the audit to obtained reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrisburg Area Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harrisburg Area Community College's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Harrisburg Area Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Trustees
Harrisburg Area Community College

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Harrisburg Area Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrisburg Area Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrisburg Area Community College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be a material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 16, 2013

I. Summary of Auditor's Results:

Financial Statements:

(i)	Type of auditor's report issued:	**Unmodified**	
(ii)	Internal control over financial reporting:		
	Material weakness(es) identified?	__X__ yes	____ no
	Significant deficiencies identified not considered to be material weaknesses?	____ yes	__X__ None reported
(iii)	Noncompliance material to financial statements noted?	____ yes	__X__ no

Federal Awards:

(iv)	Internal control over major programs:		
	Material weakness(es) identified?	____ yes	__X__ no
	Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	__X__ None reported
(v)	Type of auditor's report issued on compliance for major programs**:**	**Unmodified**	
(vi)	Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	____ yes	__X__ no
(vii)	Identification of major programs:		

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Aid Cluster:
84.007	FSEOG Program
84.063	PELL Program
84.033	FWS Program
84.268	Direct Student Loan Program
84.048	Vocational Education Grant Perkins III

(viii)	Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,183,984	
(ix)	Auditee qualified as low-risk auditee?	____ yes	__X__ no

Section II – Financial Statement Findings

A. Material Weaknesses in Internal Control

2013-01 **Proper Approval of Wire Transfers**

Condition: There is a lack of segregation of duties related to wire transfers that can be made from the College's bank accounts.

Criteria: There should be approval by someone other than the individual making the wire transfer from any of the College's bank accounts.

Cause: Currently, one individual has the ability to authorize and make wire transfers.

Effect: There could be wire transfers made in the incorrect amount or to an incorrect account without proper authorization by someone other than the individual making the wire transfer.

Recommendation: We recommend that all wire transfers be approved by someone other than the individual making the wire transfer prior to each transfer being made. This approval should be documented in writing.

Response: Management agrees with the finding and is reviewing the current wire transfer process, modifying the process where appropriate to ensure all wire transfers are created and approved by separate College staff, while assuring the approval is documented in writing.

2013-02 **Receipts – Welcome Center**

Condition: There is a lack of segregation of duties related to receipts at the welcome centers of each campus.

Criteria: Any individual taking receipts should not also have the ability to make changes to a student's account. In addition, any individual who opens the mail should not also have the ability to record the receipt into the system. Finally, all deposits should be made on a timely basis.

Cause: The cashiers at each campus have the ability to post charges and reverse charges while taking payments from students. The person who typically opens the mail also enters the receipt into the cash receipts system. In addition, if a receipt is received and the code is unknown to the cashier, the check is placed in a vault until the coding is known.

Effect: Receipts could be kept by the cashier and not properly deposited or entered into the general ledger system. Also, checks could be misplaced if not entered on a regular basis, which would also lead to not being properly deposited into the College's account or entered into the general ledger system.

Section II – Financial Statement Findings (Continued)

Recommendation: We recommend the cashiers receiving cash and checks not have the ability to make changes to a student's account. Also, for any cashier that opens the mail, the deposit should be made by another individual. Finally, all checks received should be deposited on the same day.

Response: Management agrees with the finding and is reviewing the current organizational structure to segregate the cashiering process from the Welcome Center, and separating the function of opening the mail and depositing receipts. The enhanced process will assure that all checks are deposited within 24 hours of receipt.

2013-03 **Preparation of Bank Reconciliations**

Condition: Bank reconciliations were not performed timely throughout the year.

Criteria: A bank reconciliation should be performed shortly after each month's bank statement is received from each respective bank.

Cause: Due to staff turnover throughout the year, bank reconciliations were not performed timely at the end of each month.

Effect: Numerous reconciling items were noted on each of the general operating account reconciliations performed. Since these were not properly cleared each month, the reconciliations were unnecessarily complex and financial statement errors may have gone unnoticed. In addition, there were entries identified to be made that were not by year-end.

Recommendation: We recommend that bank reconciliations be performed within two weeks of receiving the bank statement from the financial institution. This reconciliation should result in making any necessary entries to the general ledger system at that time, rather than include a listing on the bank reconciliation of items requiring adjustment.

Response: Management agrees with the finding and is reviewing the current bank reconciliation process to ensure all bank accounts are reconciled within 30 days of receiving the bank statement from the financial institution.

B. Compliance Findings

There were no compliance findings related to the financial statement audit required to be reported.

Section III – Federal Findings and Questioned Costs

A. Significant Deficiencies in Internal Control

None noted

B. Compliance Findings

There were no findings relating to the major federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

Findings related to federal awards:

2012-02	**Notification of Disbursement of Loan Proceeds**
Condition:	The College did not properly provide one student with a notification of disbursement of loan proceeds.
Status:	There were no findings related to this matter identified in the current year.
2012-03	**Vendor Verification of Suspended or Debarred**
Condition:	The College did not properly verify that a vendor was not suspended or debarred from receiving federal funds.
Status:	There were no findings related to this matter identified in the current year.
2012-04	**Deficiencies in Keystone Education Yields Success Program**
Condition:	The College had deficiencies in six of nine program performance requirement areas for this program as determined during an annual technical assistance visit.
Status:	There were no findings related to this matter identified in the current year.